



Risk Management Policy

Coface Singapore

This policy ensures that the Coface Singapore has a system for identifying, assessing, mitigating and monitoring risks that may affect our ability to meet our obligations to our clients

Version 2
June 2018

This policy is subject to change based on any changes in the legislation or the Coface Group Risk Management Policy.



Variations

Version	Date	Changes	Approval
1.0	27 December 2013	Initial version.	SG Management approved
2.0	19 June 2018	Changed version's name from Risk Management Strategy to Risk Management Policy, to be in line with Group rules. Updated contents with Risk Management Group Rules, and make references to Group's Corporate publication for public disclosures.	SG Management approved



1. DEFINITION & BACKGROUND

For the purpose of this document the referral to Coface or the Coface Group refers to the Compagnie Française d'Assurance pour le Commerce Extérieur. The referral to Coface Singapore is to Compagnie Française d'Assurance pour le Commerce Extérieur a branch of a foreign company registered and operating in Singapore.

Coface is incorporated in France, organised around various global regions, and operates in Singapore through the Singapore Branch.

Products and Strategy

Credit insurance – Allows a creditor (seller/ supplier), with a term debt against his debtor (buyer/ customer), to solicit an insurer against payment of a premium in order to cover all or part of the risk of non-payment of the claim.

Single risk – For companies and financial institutions exposed to commercial and political risks in the context of complex, large-scale transactions. It gives the insured persons the possibility of hedging themselves against a risk linked to a particular investment or market, as opposed to credit insurance products that guarantee the risks of unpaid sales of their total turnover.

Information centre – Enables companies to have a better understanding on the risks of their client portfolio.

In order to market and distribute its products and services, the Group uses numerous distribution channels, such as through its network of partners.

2. OBJECTIVES

This strategy ensures that Coface Singapore has a system for identifying, assessing, mitigating and monitoring risks that may affect our ability to meet our obligations to our policyholders. These systems, together with the structures, processes, policies and roles supporting them, are the risk management framework.

The risk management process applies both at the strategic level and at the various operational levels required for the conduct of activities. It aims to identify potential events that could negatively impact the Coface Group and is used to manage risk within limits and indicators defined in our risk appetite.



3. REGULATIONS

French Regulatory Control

The Coface Group is monitored by the French Autorite de Contrôle Prudential (ACP), and strict adherence to rules and laws is maintained. This includes providing financial statements (the assessments, income statements, etc.) and legal compliance reports (information on the administrators, staff, etc.) as and when required.

Monetary Authority of Singapore

Coface Singapore is regulated by the Monetary Authority of Singapore (MAS) which issued its license to conduct Insurance business. A specific focus is made on Anti-Money Laundering, Terrorism Financing, avoidance of Fraud risk and potential dealings with Countries under international sanctions.

Coface risk management policy ensures that all laws and regulations in Singapore are strictly adhered to. Any suspicious transaction or occurrence of fraud should be reported immediately to MAS and the relevant authorities in Singapore.

4. RISK MANAGEMENT FRAMEWORK

Risk Management forms the basis of good business practice and encourages the identification of greater opportunities for continuous improvement through innovation. Ultimately, an effective risk management framework assists in:

- Reducing the potential for adverse events having a significant impact on the operations;
- Improving relationships between internal stakeholders such as employees and management, and external stakeholders which include clients and service providers, as it provides an understanding of how they will react in different situations;
- Providing better information and analysis for decision making purposes; and
- Ensuring that a culture of accountability, assurance, good governance, and good business practice exists.

Coface Group has built a three-level approach to risk management control, which Coface SG fully adopts and abide to. The risk management mechanism consists of three lines of defence with well-identified players for each level.



4. RISK MANAGEMENT FRAMEWORK (continued)

Level 1 – Operational directors, Managers, Business operationals

These controls are carried out in everyday activities in accordance with Coface Group guidelines and involves hierarchical or computer controls, segregation of duties, and approval checks etc.

Operational Heads of departments are responsible for internal controls in daily operations.

As part of workflow management from tiered delegations and levels of responsibility between local and regional management, checks are accomplished:

- At local level by associates in each department. These include peer-review audits where we can assess adherence to workflows and Coface Group guidelines; and
- At the central level, involving a review of the different departments by the Regional Functional Managers.

Level 2 – Risk Management Function and/ or Compliance Function

The risk management function consists of defining and monitoring the application of risk policies, validating and monitoring risk indicators, assessing the relevance and effectiveness of the internal control system, following business continuity plan, collecting incidents and loss and updating the risk mapping.

These controls are carried out by the Risk and Compliance Managers, with checks coordinated from Group level via periodic projects, and results of reports are communicated within set deadlines to Group Management.

Areas of control

- **Credit Risk**
 - Risk of loss due to non-payment by a debtor of a receivable due to/ insured by Coface.
 - Checks include ensuring compliance to Coface Group's underwriting rules and exposure risks.
- **Financial Risk**
 - Risks related to management of assets and liabilities, such risk includes interest rate risk, currency risk, liquidity risk, real estate risk, spread risk, equity risk, and counterparty risk.
 - Reviews and checks on financial transactions and operations.
- **Operational Risk**
 - Defined as risk of direct or indirect losses due to inadequacy or failure attributable to procedures and persons in all areas of activity, internal systems or external events including risks of fraud.
 - Reviews and checks on operational matters and daily procedures.
- **Legal and Compliance Risk**
 - Risk of deficiencies that may lead to legal or regulatory sanctions, financial losses or reputational damages.
 - Checks to ensure compliance to legal and regulatory requirements are maintained.



4. RISK MANAGEMENT FRAMEWORK (continued)

Level 3 - Audit

These controls are provided by:

- External Auditors as part of the annual review of our operations which includes a business process audit so as to ensure that there are no matters of concern or compliance that must be reported;
- Appointed Actuaries as part of annual preparation of Insurance Liability Valuation Report and Financial Condition Report. Stress tests by Coface's Appointed Actuary are used to assess the adequacy of Coface's capital position for its targeted risk profile; and
- Group and Regional Internal Audits which could include both financial and operational audits on a periodic basis to ensure adherence to Group standards.

This three-level combination approach to risk management is used to ensure that the operations act within group and regulatory guidelines as well as proving a robust, effective and broad reaching mechanism to identify and reduce disruptions to continuing customer service.

5. RISK MANAGEMENT RESPONSIBILITIES

Group's Responsibilities

There are committees and departments within the Coface Group's framework that have been formed to manage the identification, assessment, mitigation and ongoing review of risks that affect the group.

The Group Risk department is responsible for identifying, measuring and preventing risks, including permanent control, centralizing collected incidents and losses, following up corrective actions, updating risk mapping for all lines, with competence for credit, financial and operational risk (compliance remains under Group Legal and Compliance Department's review).

Group Management is also responsible for setting global standards to assist with the risk management.

Coface Asia Pacific's and Coface Singapore's Responsibilities

The Group Risk and Group Legal and Compliance Departments set standards and policies for the group to follow. These policies are typically disseminated by the regional platform, Coface Asia Pacific ("CAP"), to the various countries within the platform, including Coface Singapore.

Coface Singapore is required to report to CAP and the Coface Group on a regular basis, typically monthly, and on an ad-hoc basis dependent the type of risk. There are standard monthly declarations as part of the ongoing risk management process, or should there be any significant issue arising, an ad-hoc report is made at the time of identification.

The Coface Group recognises that there are different requirements in each market they have entered and therefore they allow each country, in addition to following the group standards to set policy in respect of their local regulatory environment.

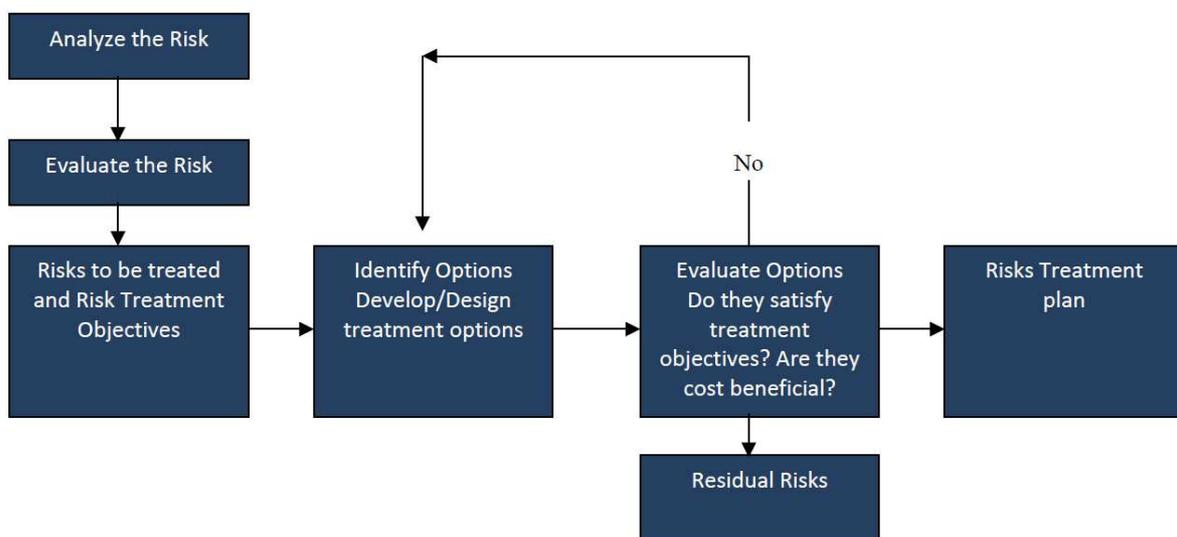
The Risk Management Policy is in line with group's practice. However, Coface Singapore has also adapted it to ensure that it suits the business model and the local regulatory needs.

6. Risk Monitoring and Tolerance

Treatment of Risks

Risk treatment involves identifying the range of options for treating risks, assessing these options and the preparation and implementation of the treatment plan. Depending on the risk appetite, it is not always cost effective or even desirable to implement all possible risk treatments. However, it would be necessary to choose, prioritise, and implement the most appropriate combination of risk treatments, in order to bring the residual risk to or below the tolerances in the *Risk Tolerance Statement* [Appendix 1].

The following illustrates the iterative nature of development of treatment action plans:



Risk treatment design is based on an understanding of how risks arise. In general a combination of treatment options will be selected to be compatible with the organisations objectives and risk tolerances. This will generally involve the following processes:

- i. **Review causes and controls –**
This involves reviewing the risk analyse to understand the problem.
- ii. **Treatment objectives –**
Setting an objective with a focus on the risk to be treated, the cause of event that the treatment should target, what the treatment measure should do, and the required performance level of the treatment i.e., reliability, efficiency, and availability.
- iii. **Design of treatment measures –**
Considers the practicality and maintainability of the treatment, by involving those stakeholders who are involved in the activities concerned and who will be affected by the treatment measures.



6. Risk Monitoring and Tolerance (continued)

Treatment of Risks (continued)

- iv. **Design review –**
Checking that the objectives have been satisfied, the design fits the purpose and is realistic, design can be monitored. The treatments will have to be maintained and that the proposed risk treatment does not introduce new risks.
- v. **Communication and implementation –**
Involves communicating with the stakeholders to ensure they understand what the plan is and what the design is meant to achieve.

Monitor & Review Risks

Monitoring provides routine surveillance of actual performance for comparison against the expected or required performance. Reviews involve periodic investigation of the current risks.

Risks are monitored and reviewed by using the three levels of controls outlined in section 4, with the results reported to local, regional and or group management depending on the nature of control.

7. Reviewing the Risk Management Framework

The Risk Management Framework must be reviewed on a regular basis so as to ensure that it meets its intended purpose, which is to identify risk that could impact on policyholder service and protection.

The Risk Management Framework relies on a number of individuals to ensure that it is operating smoothly, including;

- Employees conducting normal work processes;
- Employees who are involved in the peer review process as part of their workflows;
- Compliance Manager working with the Business line managers identifying and minimizing the impact of risk;
- Appointed Auditor and Appointed Actuaries reviewing the Risk Management Policies, and outcomes on an annual basis as part of end of year accounts and MAS regulations; and
- Group and Regional Internal Audits.

More details and information on business activities have been included in Coface Group's corporate publications, which is available on public website:

<http://coface.com/News-Publications>



APPENDIX 1

Coface Singapore (Coface) Risk Tolerance

Overall, Coface has a low/medium risk appetite with a view to ensuring growth and profitable operations in a niche market (credit risk) in Singapore. We elaborate on this below.

Table 1 – Coface – Risk Tolerances by Risk Type¹

<p>Capital, Earnings Volatility & Return Targets</p> <p>The Coface Capital Plan is subject to the following tolerances:</p> <ul style="list-style-type: none"> • A CAR target of 160% and a range of 150% to 170% • There is no maximum CAR above which capital is typically returned to the parent but this is considered regularly when the CAR is over 200% (and plans do not suggest additional capital will be required). • A high CAR is not linked with a plan to materially increase risk taking in future. <p>Coface does not target a specific Return on Capital, but currently targets premium growth of 10 to 15% p.a. combined with profitable operations, with profitability the prime consideration.</p> <p>Coface has a comprehensive stop-loss reinsurance treaty to assist with managing volatility in earnings/capital.</p> <p>Additional capital, if required at any time, is expected to be provided by Head Office. The Group has previously demonstrated that capital support will be provided quickly when needed.</p>	<p>Strategic, Reputation and Brand Risk</p> <p>Coface has a tolerance for strategic risk that ranges from low to medium.</p> <p>Coface has no plans to change its business or target market focus in the medium term.</p> <p>Coface operates as a single line credit insurer with strong Group support. Distribution is primarily through brokers but direct relationships are growing. High client retention levels are critical to the business, but only if profitability is not adversely impacted.</p> <p>Growth is targeted through key brokers and targeted industries. Enhancing premium volume through the direct channel is an important risk diversification strategy.</p> <p>Coface has a low tolerance for reputation risk. Relationships with clients, brokers and other intermediaries are critical to the business. A high standard of client service is critical.</p>
<p>Insurance Risk</p> <p>Coface has a medium tolerance for insurance risk, and emphasis is placed on robust processes, systems and controls around underwriting and claims.</p> <p>Underwriting is mandated by Group policy and tailored to the local market with local policies, such as industry based limitations.</p> <p>Downside insurance risk/loss ratio volatility is capped by the stop loss reinsurance in place.</p>	<p>Operational Risk</p> <p>Coface has a low tolerance for operational risk.</p> <p>Coface aims for well-defined procedures for key business functions with clear accountabilities. Rigorous monitoring of operational risks occurs via the RMF. All Coface operations are consistent with the parent’s policies to ensure consistent management and monitoring of operations and consistent customer satisfaction.</p> <p>Coface insources key functions within the Group locally. Coface has zero tolerance for internal fraud, threats to the safety of staff and customers, and major system disruption (where systems are under local control)</p> <p>Key person risk is actively managed.</p>

¹ A “**low**” tolerance indicates limited interest in taking risk in a particular area. This is typically because that area is not a core focus for Coface. A “**medium**” tolerance indicates a willingness to take a modest level of risk in an area where Coface holds a core competency, with a low likelihood of parental support needed in the coming year due to this risk taking. A “**high**” tolerance indicates a more aggressive risk profile where there is a material likelihood that parental support may be required in the coming year.



Other Financial Risks

Coface has a low tolerance for other financial risks. Coface has a conservative investment policy with investments held in cash and short term deposits with highly rated entities.

Coface has a low tolerance for liquidity risk.

Coface has a low tolerance for Asset-Liability mismatch risk. The duration of liabilities is currently slightly longer than for assets, but the impact is not financially significant.

Coface has a low tolerance for credit risk.

Regulation & Compliance Risk

Coface has a low tolerance for regulatory and compliance risk.

Coface seeks to conduct business in compliance with all internal policies and external regulations and legislation. There is zero tolerance for material breaches.

A rigorous program of internal and external audit is applied.